

**FINAL REPORT
OF THE
PENSION MANAGEMENT
OVERSIGHT COMMISSION**



**Indiana Legislative Services Agency
200 W. Washington St., Suite 301
Indianapolis, Indiana 46204-2789**

November 2013

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2013

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George T. Angelone
Executive Director
Legislative Services Agency

Pension Management Oversight Commission

Membership Roster

Senators

**Phil Boots, Chair
Crawfordsville**

**Lindel Hume
Princeton**

**Karen Tallian
Portage**

**Greg Walker
Columbus**

Representatives

**Woody Burton
Whiteland**

**Charles Moseley
Portage**

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South Bend**

**Jeffrey Thompson
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Lay Members

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**Kurt Meade
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**Kip White
Covington**

Legislative Services Agency Staff

**Stephanie Wells, Fiscal Analyst
Peggy Piety, Attorney
Dan Paliganoff**

November 2013

A copy of this report is available on the Internet. Reports, minutes, and notices are organized by committee. This report and other documents for this Commission can be accessed from the General Assembly Homepage at <http://www.in.gov/legislative/>.

FINAL REPORT

Pension Management Oversight Commission

I. STATUTORY AND LEGISLATIVE COUNCIL DIRECTIVES

The Indiana General Assembly enacted legislation (IC 2-5-12) directing the Pension Management Oversight Commission to do the following:

- (1) Study the investment and management practices of the boards of the public retirement funds.
- (2) Determine what constitutes adequate wage replacement levels at retirement (including benefits from public retirement funds and Social Security) for public employees.
- (3) Study the impact of federal law and proposals concerning pensions, annuities, and retirement benefits.
- (4) Study the retirement funds established in IC 36-8.
- (5) Study methods and levels of funding for public retirement funds.
- (6) Study other topics as assigned by the Legislative Council.
- (7) Study other topics as directed by the Commission's chair.

The Commission consists of 12 members: 4 Representatives, 4 Senators, and 4 lay members who must be experts in the areas of finance, investments, or pension fund management. The chair of the Legislative Council appoints the chair of the Commission.

The Legislative Council assigned the Commission the additional responsibility of studying issues related to the retiree health benefit system of the Indiana State Police Pre-1987 Benefit System (IC 10-12-3) and the Indiana State Police 1987 Benefit System (IC 10-12-4).

II. INTRODUCTION AND REASONS FOR STUDY

This year the Commission reviewed the following:

- (1) The retiree health benefit systems of the Indiana State Police.
- (2) Whether the Commission should endorse a voluntary municipal disability program for Emergency Medical Service (EMS) workers.
- (3) The recent Indiana Public Retirement System (INPRS) Annuity Savings Account (ASA) changes.
- (4) Whether the Commission should endorse a voluntary private sector state-assisted retirement plan.
- (5) The Indiana Judicial Retirement System in comparison to the state pension systems for public employees, teachers, and prosecutors and whether the Indiana Judicial Retirement System should be changed at this time.
- (6) Whether certain public pension retirees, survivors, and beneficiaries should receive cost-of-living adjustments (COLAs) to their benefits or thirteenth pension checks.

III. SUMMARY OF WORK PROGRAM

The Commission met on the following dates:

August 27, 2013, at the State House in Indianapolis.
September 23, 2013, at the State House in Indianapolis.
October 21, 2013, at the State House in Indianapolis.

IV. SUMMARY OF TESTIMONY

A more detailed summary of the testimony may be found in the meeting minutes, which may be accessed from the General Assembly homepage at www.in.gov/legislative.

A. INPRS Annual Report

Steve Russo, Executive Director of INPRS, presented his annual overview to the Commission on the state of INPRS. Specifically, Director Russo discussed the funding status, revenue sources, and funding options for the seven different pension plans administered by INPRS. Director Russo addressed rule changes made by the Government Accounting Standards Board (GASB) that will affect the method for calculating and reporting net pension liability and pension expense. Director Russo updated the Commission on the status of the 401(h) accounts, as well as the ASA-only Public Employee Retirement Fund (PERF) plan. Director Russo outlined recent changes that the INPRS Board has made in regard to the annuitization of PERF and Teachers' Retirement Fund (TRF) members' ASA balances upon or after retirement. Prior practice was to calculate these annuities using a 7.5% interest rate and outdated mortality tables.

Director Russo also described the history of ASAs and the Guaranteed Fund. Specifically, he discussed the different ASA investment options now available to PERF and TRF members, as well as fees and rates of return.

B. Benefits for Municipal EMS Workers

Mr. Tom Hanify, Mr. Michael Whited, and Mr. Tony Murray from the Professional Fire Fighters Union of Indiana presented on their request to provide an optional short-term disability program for EMS workers who did not fall under similar existing programs for firefighters or police. Specifically, the worker would receive up to one year of temporary disability (depending on whether the injury or disability occurred in the line of duty) or six months of temporary disability (for injuries not occurring in the line of duty) with compensation in an amount of 50% of their salary.

The Commission reviewed PD 3302. PD 3302 authorizes a municipal corporation to provide programs of disability insurance to its emergency medical services providers who become disabled as the result of an injury or illness: (1) that is not covered by worker's compensation or occupational diseases compensation; or (2) for which worker's compensation or occupational diseases compensation has been exhausted. The draft provides that a benefit must be at least 50% of the provider's weekly salary or wages as of the date the disability began, and that the elimination or waiting period before a benefit begins may not be greater than: (1) 30 days for a short-term disability program; or (2) 120 days for a long-term disability program. The draft also allows a municipal corporation to provide the programs by purchasing policies of group insurance or establishing a self-insurance program. The draft requires the fiscal body of a

municipal corporation to approve the establishment of a self-insurance program. Finally, the draft allows the programs to exclude part-time employees and individuals who provide services to the municipal corporation under a contract.

The Commission amended PD 3302 to remove the language requiring that the benefit be at least 50% of the emergency medical service provider's weekly salary in order to provide more flexibility to municipalities.

The Commission voted unanimously to recommend PD 3302, as amended, for introduction in the 2014 session of the General Assembly. Senators Boots and Hume agreed to be authors of PD 3302.

C. Indiana State Police (ISP) Retiree Health Benefits

Superintendent Carter and Major Phillip Parker discussed the ISP health care plan for retirees. Typically, the state has not directly paid for any of this liability, with the plan being historically operated as a pay-as-you-go plan. Due to GASB changes, this is no longer an option. Therefore, plan premiums, employer premiums, federal government subsidies, as well as other funding sources have been used in recent years to fund a 401(h) program to raise the funded ratio of the plan. In FY 2014 and FY 2015, the state will pay roughly one-half of ISP's annual required contribution into the plan each year. Ongoing state contributions towards this obligation of one-half of the required contribution is optimal, according to Major Parker. The goal is to have the plan fully funded within 15 years.

D. PERF and TRF ASA Annuitization

The Commission heard from several individuals regarding the recent decision by the INPRS Board to provide ASA annuities with market interest rates through a 3rd party provider. The individuals that spoke against the recent board decision included representatives from the Indiana State Teachers Association (ISTA), the Indiana Retired Teachers Association (IRTA), AFL-CIO, American Federation of State, County, and Municipal Employees (AFSCME), Retired Indiana Public Employees Association (RIPEA), Indiana State Employees Association, and the Indiana Federation of Teachers.

Senator Tallian introduced a motion to be included in the Commission's Final Report. The motion reads as follows:

- (1) The Commission considered the four proposals considered by the INPRS Board regarding the issuance of annuities to retirees for their ASAs.
- (2) The Commission recommends that INPRS pursue an option that would keep the annuitization of ASAs in-house and to not proceed with a 3rd party contract. Instead INPRS should periodically establish an interest rate that will not create an unfunded liability in their managed funds.
- (3) The Commission recommends the General Assembly not set a statutory interest rate at this time.
- (4) The Commission recommends that the date to undertake these activities occur not earlier than October 1, 2014.

The Commission passed the motion by unanimous vote.

E. State-Assisted Retirement Plan

Senator Walker discussed his proposal for a state-assisted retirement plan (SB 380-2013). Senator Walker discussed the concept behind these plans and indicated that they are voluntary and very much resemble the College Choice 529 Plan administered by the Treasurer of State. Senator Walker indicated that a one-time tax credit, similar to the 529 income tax credit, may help jump-start this program. June Lyle from AARP Indiana and Jim Holden from the Office of the Treasurer of Indiana both spoke in support of this concept.

The Commission reviewed PD 3342. This bill establishes a state-assisted retirement plan for purposes of encouraging Indiana residents to increase their rate of savings and to build assets for the use of a participant or the participant's beneficiaries or survivors after the participant's retirement. The draft establishes the Indiana Retirement Savings Board consisting of five members appointed by the Governor, the Treasurer of State, and the Director of the Office of Management and Budget and provides that the board selects an administrator and oversees the plan. The draft also requires that the plan be qualified under Section 401(a) or another applicable section of the Internal Revenue Code. An employer can participate in the plan only if the employer does not offer its employees a pension or retirement system of any kind. Participation in the plan is voluntary for eligible employers and employees, and self-employed individuals may also participate in the plan. The plan may not be construed as a debt, a liability, or an obligation of the state, and the state does not guarantee amounts deposited into an account. The state also does not guarantee the investment returns earned by an account. Finally, the draft establishes a one-time tax credit, not to exceed \$250, for payroll contributions to the plan made by a participant who has not previously participated in a pension or retirement plan of any kind.

The Commission unanimously recommended PD 3342 for introduction in the 2014 session of the General Assembly. Senators Tallian and Walker agreed to be authors of PD 3342.

F. Discussion of Judicial Pension Plan

The Commission reviewed materials that compared the judicial retirement plan in Indiana to other Midwestern states as well as a separate comparison of Indiana's judicial plan with those of the prosecutors, public employees (PERF), and teachers (TRF). Judge John Baker from the Indiana Court of Appeals spoke to the Commission on this issue and urged the Commission not to create a new judicial retirement system.

The Commission reviewed PD 3259, which establishes the 2014 Judges' Retirement, Disability, and Death System (2014 Judges' System) and which conforms closely to the features of the Prosecuting Attorneys Retirement System (PARF) for individuals who become judges or magistrates after June 30, 2014. No motion was made to recommend this language, as it was intended for discussion purposes only.

G. COLAs, Thirteenth Checks, and Minimum Pension Benefit Scenarios

John O'Neal from ISTA and Nancy Tolson with IRTA requested that the Commission consider recommending legislation to establish a COLA for retired public employees and teachers, as these individuals have not received a COLA for several years. Representative Burton indicated that he has interest in reviving minimum benefit legislation that provides a guaranteed monthly benefit amount for older retirees. Representative Thompson reported that he wanted to again

raise the hybrid postretirement benefit increase concept from the 2012 Commission Final Report (PD 3292 - 2012).

The Commission considered PD 3285, which establishes a formula for annual postretirement benefit adjustments for members, survivors, and beneficiaries of PERF and TRF. The bill creates a formula that takes both years of service and current annual benefits into account. Specifically, the formula is based on two factors: an increase of \$10 for each year of service (up to 30 years of service) plus an increase of 1% on current annual benefits (not to exceed \$300). The maximum available increase under this formula is \$600 in additional annual benefits. The bill allows that benefit adjustments that result from the formula may be given either in the form of a permanent COLA or as a one-time 13th check. The bill provides no additional new benefit after January 1, 2015 (other than the ongoing COLA benefit from the first year, in the event the increase is granted as a COLA).

Instead of directly recommending PD 3285, the Commission instead approved a motion that recommends the use of the postretirement benefit increase formula within PD 3285. The motion reads as follows:

- (1) Should the Indiana General Assembly adopt a 13th Check or a COLA, the formula contained within PD 3285 is the formula that should be utilized to calculate the level of benefit increase.

The Commission adopted the motion 9-0, with Representative Thompson abstaining.

H. Update on 501 Retirement Medical Accounts

Deanna Oware, Deputy Director at the Indiana State Budget Agency, presented on the Retirement Medical Benefits Accounts. Ms. Oware updated the Commission on the status of the accounts, including funding and contributions into individual accounts.

V. COMMITTEE FINDINGS AND RECOMMENDATIONS

The Commission made the following recommendations:

- (1) **PD 3302**, as amended, for introduction in the 2014 session of the General Assembly. PD 3302 authorizes a municipal corporation to provide programs of disability insurance to its emergency medical services providers who become disabled as the result of an injury or illness.
- (2) The Commission unanimously recommended the adoption of a motion that states the following: (1) The Commission considered the four proposals considered by the INPRS Board regarding the issuance of annuities to retirees for their ASAs; (2) The Commission recommends that INPRS pursue an option that would keep the annuitization of ASAs in-house and to not proceed with a 3rd party contract. Instead INPRS should periodically establish an interest rate that will not create an unfunded liability in their managed funds; (3) The Commission recommends the General Assembly not set a statutory interest rate at this time; and (4) The Commission recommends that the date to undertake these activities occur not earlier than October 1, 2014.
- (3) **PD 3342** for introduction in the 2014 session of the General Assembly. PD 3342 establishes a state-assisted retirement plan for purposes of encouraging Indiana residents to increase their rate of savings and to build assets for the use of a participant or the participant's beneficiaries or survivors after the participant's retirement.
- (4) The Commission, by a vote of 9-0, recommended the postretirement benefit increase formula outlined in PD 3285. Specifically, the Commission recommends that, should the Indiana General Assembly adopt a 13th Check or a COLA, the formula contained within PD 3285 is the formula that should be utilized to calculate the level of benefit increase.

The Commission unanimously recommended the adoption of the draft final report with the understanding that actions taken during its final meeting would be included in the Commission's final report.

WITNESS LIST

Honorable John Baker, Indiana Court of Appeals.
Superintendent Carter, Indiana State Police.
Dan Doonan, American Federation of State, County and Municipal Employees.
Tony Green, Chief Legal and Compliance Officer, Indiana Public Retirement System
Nancy Guyott, AFL-CIO.
Tom Hanify, Professional Fire Fighters Union of Indiana.
Jim Holden, Chief Deputy & General Counsel, Office of the Treasurer of Indiana.
David Larson, Indiana State Employees Association.
Amy Levander, Indiana Judges Association.
June Lyle, State Director, AARP Indiana.
Bill Murphy, Retired Indiana Public Employees Association.
Tony Murray, Professional Fire Fighters Union of Indiana.
Deanna Oware, State Budget Agency.
Major Phillip Parker, Indiana State Police.
Steve Russo, Executive Director, Indiana Public Retirement System.
Sally Sloan, Indiana Federation of Teachers.
Nancy Tolson, Indiana Retired Teachers Association.
Michael Whited, Professional Fire Fighters Union of Indiana.
Gail Zeheralis, Indiana State Teachers Association.